



**Office of Audit Services**  
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February 15, 2011

### **AGENDA ITEM 3b**

#### **TO: MEMBERS OF THE FINANCE COMMITTEE**

- I. SUBJECT:** Management Letter
- II. PROGRAM:** Audit Services
- III. RECOMMENDATION:** Staff requests Finance Committee recommendation to the Board of Administration for acceptance of the 2010 Draft Management Letter, as prepared by Macias Gini & O'Connell LLP for the Fiscal Year Ended June 30, 2010.

#### **IV. ANALYSIS:**

The Board of Administration's independent financial statement auditor, Macias Gini & O'Connell LLP, completed its audit of CalPERS Financial Statements for the fiscal year ended June 30, 2010 as required in Section 20228 of the Government Code. The Board of Administration approved the basic financial statements on November 17, 2010. In connection with the audit of the financial statements, Macias Gini & O'Connell LLP prepared a Management Letter that includes observations and recommendations to enhance accounting and administrative internal controls as well as operational processes.

The 2010 Draft Management Letter is presented as Attachment A to this agenda item as a stand alone report. Macias Gini & O'Connell LLP discussed the observations and recommendations in the Draft Management Letter with management who have concurred with the observations and prepared a response to each recommendation. Management's responses are included in this Draft Management Letter.

This Management Letter is considered a draft until it is accepted by the Board of Administration and subsequently signed by Macias Gini & O'Connell LLP. The signed Management Letter will be distributed to the Board of Administration, executive staff and senior management.

Representatives of Macias Gini & O'Connell LLP and CalPERS management are available to answer questions of the Committee members.

Consistent with the Finance Committee's Audit Resolution Policy, the status of the observations in the 2010 Management Letter will be reported to the Finance Committee until such time as management has satisfactorily resolved each noted observation. Current year observations are on pages 3 and 4 of the Management Letter. Prior years' observations still to be resolved are found on the following pages:

Current Year Status of Prior Years' Observations Still Open

Observation 2 - CERBTf Actuarial Valuations	Page 6
Observation 4 - Real Estate Appraisals	Page 9
Observation 13 – Electronic Data Processing Password Policy	Page 18
Observations 15.3 and 15.4 – Access to Programs and Data	Page 28

**V. STRATEGIC PLAN:**

This item is not a specific product of the Strategic Plan, but is part of the ongoing work of the Office of Audit Services.

**VI. RESULTS/COSTS:**

Management is responsible for determining the cost benefit of implementing corrective action plans for the observations noted in the Management Letter. There is no additional cost for this specific agenda item.

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MARGARET JUNKER, Chief  
Office of Audit Services

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PETER H. MIXON  
General Counsel

Attachment